

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

NOTICE OF CUMBERLAND FALLS HIGHWAY)
WATER DISTRICT OF PWA INCREASE IN) CASE NO. 9417
RATES EFFECTIVE OCTOBER 2, 1985)

O R D E R

On September 9, 1985, Cumberland Falls Highway Water District ("Cumberland Falls") filed its application with the Commission requesting approval of its purchased water adjustment clause and authority to adjust its rates in accordance with that clause. Cumberland Falls proposed to recover the increase in purchased water expense from one of its wholesale suppliers, the City of Williamsburg ("Williamsburg"), which became effective July 15, 1985. The Commission has accepted this proposal subject to the absorption test described herein.

COMMENTARY

Prior to approving increased rates resulting from purchased water cost increases pursuant to 807 KAR 5:067, the Commission must examine a utility's financial condition to determine whether it can absorb any of the increased cost. If there is potential for absorption, the Commission may adjust rates to offset only that portion of the increased water cost which cannot be absorbed.

TEST PERIOD

Cumberland Falls filed, and the Commission has accepted, the 12-month period ending July 15, 1985, as the test period in this matter.

REVENUES AND EXPENSES

Cumberland Falls did not propose any adjustments, as such, to its test-year statement of operations. However, Cumberland Falls did include a calculation of the increase in purchased water costs resulting from the increased wholesale rate charged by Williamsburg adjusted for excessive line loss. The Commission, after careful examination of Cumberland Falls' financial condition, has made the following adjustments to Cumberland Falls' test-year operating statement in accordance with its established rate-making practices:

Purchased Water Expense

Cumberland Falls reported actual purchased water expense for the test period of \$62,562 which contained line loss of 23 percent. Based on adjusted test-year sales of 52,943,000 gallons and the Commission's purchased water adjustment regulations, line loss was limited to 15 percent for rate-making purposes, resulting in adjusted test-year purchased water expense of \$57,363. The test-year purchased water expense, including the July 15, 1985, increase from Williamsburg of \$7,533 and reduced for excessive test-period line loss of \$5,199, is \$64,896. Accordingly, the Commission has increased Cumberland Falls' adjusted test-year purchased water expense of \$57,363 by \$7,533 to reflect the allowed increased purchased water expense.

Depreciation Expense

Cumberland Falls' test-year depreciation expense was \$19,407. The Commission, in Cumberland Falls' last general rate case, computed depreciation expense for rate-making purposes on non-contributed plant only, to insure that ratepayers pay only for the plant in which the utility has made an investment and not the plant which the utility has acquired through contributions.

Cumberland Falls' balance sheet at the end of the test-year reflects Contributions in Aid of Construction of \$406,243, which represents approximately 62.06 percent of the total cost of utility plant in service. Therefore, in determining the pro forma depreciation expense, the Commission has excluded approximately 62.06 percent of the test-year depreciation expense. The adjusted depreciation expense for rate-making purposes is \$7,364, which reflects a reduction of \$12,043.

Adjustments to the test-year operations produced the following results:

	<u>Actual</u>	<u>Commission Adjustments</u>	<u>Commission Adjusted</u>
Operating Revenues	\$ 189,507	\$ -0-	\$189,507
Operating Expenses	186,697	<9,709>	176,988
Operating Income	<u>\$ 2,810</u>	<u>\$ 9,709</u>	<u>\$ 12,519</u>
Other Income	3,145	-0-	3,145
Other Deductions	14,503	-0-	14,503
	<u><u>\$< 8,548></u></u>	<u><u>\$ 9,709</u></u>	<u><u>\$ 1,161</u></u>

REVENUE REQUIREMENTS

Cumberland Falls' annual debt service is \$13,880. The Commission is of the opinion that a debt-service coverage of 1.2X is a fair, just and reasonable coverage for Cumberland Falls to

maintain in that it meets the requirements of its lenders and provides an adequate surplus for equity growth. Based on adjusted test-period operations, the Commission finds that Cumberland Falls should increase its rates to produce additional annual revenues as follows:

Adjusted Operating Expenses	\$176,988
Interest Expense on Other Long-term Debt	4,623
1.2X Debt-service Coverage	16,656
Revenue Requirement	<u>\$198,267</u>
Less:	
Adjusted Operating Revenue	\$189,507
Adjusted Other Income	3,145
Increase Required	<u>\$ 5,615</u>

Thus, the Commission is of the opinion that Cumberland Falls should absorb \$1,918 of the total increase of \$7,533 in its purchased water cost.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. Cumberland Falls has not made any bond principal payments since 1977 and owes accrued interest of \$79,928 on various long-term debts.

2. A Show Cause proceeding to investigate the non-payment of both the bond principal payments and the interest expense accrued associated with various long-term debts should be conducted.

3. The purchased water adjustment clause filed by Cumberland Falls is in compliance with 807 KAR 5:067, is in the

best interest of Cumberland Falls and the public, and should be approved.

4. Cumberland Falls has the potential to absorb \$1,918 of the total adjusted purchase of water cost increase of \$7,533.

5. The rates as proposed by Cumberland Falls are unfair, unjust and unreasonable and should be denied upon application of KRS 278.030.

6. A purchased water adjustment in the amount of 11 cents per 1,000 gallons and the rates in Appendix A will provide the additional revenues granted herein and are fair, just and reasonable, and therefore should be approved.

7. The base rate for future application of the purchased water adjustment clause of Cumberland Falls should be:

<u>Supplier</u>	<u>Rate</u>
City of Williamsburg:	
Watt's Creek	\$ 1.00 per 1,000 gallons
Becks Creek	1.00 per 1,000 gallons
Liberty	1.00 per 1,000 gallons
City of Corbin	1.05 per 1,000 gallons
	50.00 per month flat charge
West Laurel Water Association	1.00 per 1,000 gallons

IT IS THEREFORE ORDERED that:

1. A separate Show Cause proceeding shall be conducted to investigate the matter of non-payment of both the bond principal payments and the interest expense accrued associated with various long-term debts.

2. The purchased water adjustment clause filed by Cumberland Falls be and it hereby is approved effective on and after the date of this Order.

3. The rates proposed by Cumberland Falls be and they hereby are denied.

4. The rates in Appendix A are the fair, just and reasonable rates to be charged for water service rendered on and after the date of this Order and are hereby approved.

5. For the purpose of future application of the purchased water adjustment clause of Cumberland Falls the base rate for purchased water shall be:

<u>Supplier</u>	<u>Rates</u>
City of Williamsburg	
Watt's Creek	\$ 1.00 per 1,000 gallons
Becks Creek	1.00 per 1,000 gallons
Liberty	1.00 per 1,000 gallons
City of Corbin	1.05 per 1,000 gallons
	50.00 per month flat charge
West Laurel Water Association	1.00 per 1,000 gallons

6. Cumberland Falls shall file with the Commission within 30 days of the date of this Order its revised tariff sheets setting out the purchased water adjustment clause and the rates approved herein.

Done at Frankfort, Kentucky, this 18th day of October, 1985.

PUBLIC SERVICE COMMISSION

Richard D. / Kmaneph
Chairman

Paul H. / Sgh
Vice Chairman

Spencer M. / Wilkins
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9417 DATED OCTOBER 18, 1985

The following rates and charges are prescribed for customers of Cumberland Falls Highway Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

GENERAL WATER SERVICE

<u>USAGE BLOCKS</u>	<u>RATES</u>
First 1,000 gallons	\$ 9.86 Minimum
Next 4,000 gallons	3.11 per 1,000 gallons
Next 5,000 gallons	2.36 per 1,000 gallons
Over 10,000 gallons	1.86 per 1,000 gallons

Minimum Bills

5/8-inch x 3/4-inch meter	\$ 9.86 Minimum
1-inch meter	22.30 Minimum
2-inch meter	62.00 Minimum